



## Education Tuition Tax Credit

- *Reduces the cost of education*
- *Saves the state and local taxpayers money*
- *Creates options for students and parents*
- *In a State wide opinion poll, supported equally by Democrats and Republicans*

**The Purpose:** Public Schools are the backbone of the Montana educational system, and work very well for most, but not all, children. This is evidenced by Montana's approximately 20 % drop-out rate and a 30% remediation rate in math and writing for Montana high school graduates entering the Montana University System. Those children, for whom public school is not a good fit, parents need options.

A recent poll on educational attitudes found; considerable support for school choice policies, 9 out of 10 Montana parents would said they would prefer to send their student to a private school, charter school, virtual school or provide home schooling. 37% of parents said they would prefer private schools and 10% of parents would prefer a regular public school. 54% of Montanans said they are favorable to an individual tax credit and deductions for parents to offset their child's schooling expense similar to the one in this bill. (The poll can be viewed in its entirety at [www.montanafamily.org](http://www.montanafamily.org))

Support for this type of policy was equally strong across all demographic lines including income, political party affiliation, religion, and geographic location.

**What does it do?** The bill allows up to a \$750 tax credit for K-12 non-public school tuition in tax year 2011, up to \$1,400 credit in tax year 2012, up to \$2,000 credit in tax year 2013, up to \$2,300 credit in tax year 2014 and up to a \$2,600 tax credit in tax 2015 and beyond. The credit is allowed to individuals with a dependent child for K-12 tuition expense including for attendance to a K-12 private school, or private virtual/online school. Home school expense is not included.

**What does it cost?** The average cost to educate a child in a Montana public school was approximately \$10,500 per year in 2011. The tuition cost to educate a child in a Montana private high school is about \$6000 per year and Montana private elementary tuition is between \$3,000 and \$4,000 per year.

**How does it work?** Individuals wishing to claim the tax credit must declare their intent annually on a form. The form must be available for download upon OPI's website. Forms must also be available from each county superintendent of schools. The form must be filed with county superintendent of schools of the school district of residence by May 10. The forms will be forwarded to the superintendent of public instruction. The number of eligible dependent children indicated on the forms who were enrolled in a public school during the year in which the form was filed must be excluded from ANB calculations for the ensuing school year and may not be included in the 3-year averaging.

The superintendent of public instruction will forward a copy of each form to the department of revenue for use in determining eligibility for the tax credit.

#### **THE BOTTOM LINE**

- **Montana public schools spend an average of over \$10,000.00 /year/student and educating students with a \$750.00 to a \$2,600.00 income Tax Credit saves taxpayers' money.**
- **Because of the Montana school funding formula public school district dollars available per pupil increases when a student moves to a private school on an income Tax Credit at the same time saving the taxpayers money. In the funding formula all funds are not attached to the student.**
- **This is a gain for the local counties as the Mill Levy Funds stay in the county and do not go to education.**
- **Parents claiming the credit are not getting a free ride. They must pay the cost of private school tuition and bear the cost of the difference between the amount of the credit and the tuition cost.**
- **Net savings to State Budget: approximately \$.2.3 Mil year 1, 3.4 mil year 2, 3.6 year 3, 3.8 year 4, and 3.7 year 5**
- **Net Savings to Local County Tax Payers across the State: \$.2.4 mil year 1, 7.7 mil year 2, 9.1 mil year 3, 9.9 mil year 4 and 10.6 mil year 5. This will really help to offset the removal of the business equipment tax**
- **Social/Economic effects of reducing the high school dropout rate would vastly improve the well-being of all of the citizens of Montana.**

Montana is one of only eight remaining states without school choice or charter schools. It is in the best interest of this state to ensure that all parents and foster parents, regardless of means, have the opportunity to choose an educational venue that works best for their child.

Many Montana parents and foster parents would like the opportunity to choose a school for their child among options that include private schools, charter schools, virtual schools, and home schooling. Approximately 2,000 new dropouts enter the state's labor market each year. Montana high school graduates on average earn 22% more than Montana high school dropouts after controlling for differences in age, gender, and race. The total cost to Montana's economy that results from these reduced taxable earnings amounts to \$216 million annually. The lost wages of high school dropouts lead to lower state tax contributions. This lost tax revenue amounts to approximately \$16.3 million annually due to the lower wages of high school dropouts.

Montana's high school dropouts are almost twice as likely to report "fair" or "poor" health as graduates. Dropouts are also almost twice as likely to receive Medicaid subsidies and be more reliant on the state to cover the related expenses. Higher Medicaid use by dropouts costs Montana nearly \$23 million per year. Nearly 1 of every 10 young male dropouts was institutionalized on a given day in 2006-2007 versus less than 1 of 33 high school graduates. The total annual fiscal impact of dropouts on the state's incarceration costs is almost \$10 million. By permanently cutting the dropout rate in half, each class of new high school graduates will yield over \$32 million in direct gross economic benefits to the state.

Now we have several amendments that:

- Clarify education expenses as being tuition only.
- Clearly prohibit home schools
- How the ANB formula will remove the student from this year calculations and the 3 year average
- Definition of an eligible student
- Definition of a partially eligible student
- How to establish the base for use in calculating existing private school students credit
- What a qualified school is accredited and non-accredited schools and the responsibility of each
- The ability for any person paying the tuition to claim the credit. This could be grandparents, other family or very gracious benefactor.

Some other interesting facts are if private schools were to close today it would cost the state more than 42 million more in ANB funds and the Local Mills would have to cover an additional 21 million. Not that this is going to happen, but I believe the numbers show that private schools do provide a valuable service and save tax payers a lot of money.

In summary, it is time for Montana to offer some school choice. This program will clearly will be a savings to the state of Montana and our counties. It will allow parents the ability to choose the education that is right for their children and bear the responsibility to pay for the education with a partial credit to assist at years end.

I will not turn it over to proponents and opponents.

Amendments to House Bill No. 397  
1st Reading Copy

For the House Taxation Committee

Prepared by Dan Whyte  
February 12, 2011 (12:47pm)

1. Title, page 1, line 4.

**Following:** the second "FOR"

**Strike:** "EDUCATION"

2. Title, page 1, line 5.

**Strike:** "EXPENSES"

**Insert:** "TUITION"

3. Title, page 1, line 6.

**Strike:** "DEFINING "EDUCATION EXPENSES";"

4. Page 1, line 13.

**Following:** "education"

**Strike:** "expenses"

**Insert:** "tuition"

**Following:** the first "a"

**Strike:** "dependent"

5. Page 1, line 16.

**Following:** "(2)"

**Strike:** "Education expenses"

**Insert:** "Tuition"

**Following:** "that"

**Strike:** "qualify"

**Insert:** "qualifies"

**Following:** "section"

**Strike:** "are amounts"

**Insert:** "is an amount"

6. Page 1, line 17.

**Following:** "a"

**Strike:** "dependent"

**Insert:** "child"

7. Page 1, line 18.

**Following:** "qualifying"

**Strike:** "education expenses"

**Insert:** "tuition"

8. Page 1, line 19.

**Following:** "qualifying"

**Strike:** "education expenses"

**Insert:** "tuition"

9. Page 1, line 20.

**Following:** "which"

**Strike:** "those expenses have"

**Insert:** "the tuition has"

10. Page 2.

**Strike:** subsection (6) in its entirety

11. Page 2, line 23.

**Insert:** "The credit may not be claimed by any parent or guardian who home schools a child."

12. Page 2, line 27.

**Following:** "a"

**Strike:** "dependant"

13. Page 3, line 3.

**Following:** "eligible"

**Strike:** "dependant"

14. Page 3, line 5.

**Following:** "and"

**Strike:** "may not be included in the"

**Insert:** "if"

15. Page 3, lines 5 and 6.

**Following:** "averaging"

**Strike:** "pursuant to 20-9-311" on lines 5 and 6

**Insert:** "they must also be subtracted from the previous 2 years counts"

16. Page 7, line 21.

**Insert:** "(15) For the purpose of determining ANB under subsections (1) or (13) students who are enrolled in a qualified school or program and are receiving grants under [sections 1 and 2] and who were previously enrolled in a public school must be subtracted from the current year count, and if the 3-year averaging is used, they must also be subtracted from the previous 2 years counts."

- END -

**NEW SECTION. Section 2. Intent to claim education tax credit -- form.** (1) The superintendent of public instruction shall provide a form on which to declare the intent to claim an education tax credit. The form must outline the tax credit provided by [section 1] and must contain an affidavit that the individual completing the form intends to enroll a dependent child in a nonpublic school. The form must be made available for download upon OPI web site. Forms must also be provided to and be available from each county superintendent of schools.

(2) In order to be eligible for the tax credit provided for in [section 1], an individual shall annually complete 62nd Legislature HB0397.01- 3 - *Authorized Print Version* - HB 397 the form provided for in subsection (1) of this section and return the form to the county superintendent of schools of the resident by May 10. Each district shall forward the forms to the county superintendent, who shall then forward the forms to the superintendent of public instruction. The number of eligible dependent children indicated on the forms who were enrolled in a public school during the year in which the form was filed must be excluded from ANB calculations for the ensuing school year and may not be included in the 3-year averaging pursuant to 20-9-311.

Also in the amendments previously sent:

(1) "Eligible student" means a student who is a Montana resident and who:

(a) is eligible to enroll in a kindergarten or an elementary or secondary school program in Montana; and

(b) attending a public school or entering a non-public school in K or 1<sup>st</sup> grade or transferring to a non-public school from an out of state school during the school year that the "Intent to claim education credit form" is filed with the resident district; or

(c) is currently placed or during the previous fiscal year was placed in foster care under the supervision of the state.

(2) "Partial Eligible Student" means a student who is a Montana Resident and who:

(a) is eligible to enroll in a kindergarten or an elementary or secondary school program in Montana; and

(b) is enrolled in a nonpublic school during the school year that the "Intent to claim education credit form" is filed with the county superintendent of schools of the resident.

(3) "Qualified school or program" means a school or program that:

(a) is a nonpublic educational facility or entity that qualifies its students for exemption from compulsory enrollment under 20-5-102;

(b) (i) is accredited, has applied for accreditation, or is provisionally accredited by:

(A) the accrediting association of seventh-day adventist schools;

(B) the American montessori society;

(C) the association of christian teachers and schools;

(D) the national independent private schools association;

(E) the North American christian school accrediting association;

(F) the Wisconsin evangelical lutheran synod;

(G) the association of classical christian schools;

(H) the association of christian schools international;

(I) christian schools international;

(J) the national association for the education of young children;

(K) national lutheran schools;

(L) the pacific northwest association of independent schools;

(M) the western catholic educational association;

(N) the northwest accreditation commission; or

(O) the American association of christian schools; or

(ii) is a nonaccredited school and has informed the child's parents or foster parents in writing at the time of enrollment that the school is not accredited and is not seeking accreditation;



(c) is not a home school as provided in 20-5-109;

(d) administers a nationally recognized normative assessment test and makes the results available to the child's parents or foster parents; and

(e) satisfies the health and safety requirements prescribed by law for private schools in this state.

New Section1. sub-section(2)

Add; (a) non-public school tuition paid for an "Eligible student" qualifies for the credit;

Add; (b) non-public school tuition paid for a "Partial Eligible Student" qualifies for the credit. Only the increased amount of school tuition from the year prior to filing the "Intent to claim education credit form" will be eligible. The year prior to the initial filing will remain the base year to determine any increases in tuition paid.

## Summary of Savings

	State Savings totals	Local Mills Savings	Private School Increase	Credit totals	Private ANB Sav	Private LM saving
Year 1	\$2,288,235.87	\$2,401,026.34	6,993.00	\$925,905.00	\$42,120,587.25	\$21,283,195.50
Year 2	\$3,378,793.12	\$3,887,058.26	7,722.49	\$2,670,024.31	\$46,514,487.89	\$23,503,398.32
Year 3	\$3,575,217.74	\$5,479,656.51	9,181.47	\$5,352,471.19	\$55,302,289.18	\$27,943,803.95
Year 4	\$3,874,130.98	\$6,965,688.43	9,910.96	\$7,888,234.50	\$59,696,189.82	\$30,164,006.76
Year 5	\$3,717,112.98	\$8,451,720.35	10,640.45	\$10,879,929.06	\$64,090,090.46	\$32,384,209.58

[illegible]

Year 2	State ANB	Local School Mills		Current Private			
Assumptions:					7722.49		
Elementary School	\$3,635	\$1,753.00					
High School	\$4,396	\$2,305.00		ANB Elem	\$21,053,438.36	Local ELE	\$10,153,143.73
Current Enrollment	145,898			ANB HS	\$25,461,049.53	Local HS	\$13,350,254.59
Year 2 \$1400				TOT	\$46,514,487.89		\$23,503,398.32
Transfer @ .5%	1458.98	ANB	Lmill				
k-8 75% of transfer	1094.235						
HS25% transfer	364.745	\$3,977,544.23	\$1,918,193.96				
New Enroll #of Private students / 12 Kin	643.5408333	\$1,603,419.02	\$840,737.23				
Current students with\$50 increase 50% elegibale for credit	3539	\$467,854.19	\$1,128,127.08				
S T		\$6,048,817.43	\$3,887,058.26				
Credit							
Current students with\$50 increase 50% elegibale for credit	\$176,973.73						
Transfers	\$2,042,572.00						
Kind 50% eligible	\$450,478.58						
Credit ST	\$2,670,024.31						
Year 2 Savings	\$3,378,793.12						

[illegible]

Year 4	State ANB	Local School Mills	Current Private	9910.96		
Assumptions:						
Elementary School	\$3,635	\$1,753.00				
High School	\$4,396	\$2,305.00	ANB Elem	\$27,019,754.70	Local ELE	\$13,030,434.66
Current Enrollment	145,898		ANB HS	\$32,676,435.12	Local HS	\$17,133,572.10
			TOT	\$59,696,189.82		\$30,164,006.76
Year 4 \$2300						
		ANB				
Transfer @ .5%	2917.96		Lmill			
k-8 75% of transfer	2188.47	\$7,955,088.45		\$3,836,387.91		
HS25% transfer	729.49	\$3,206,838.04		\$1,681,474.45		
New Enroll #of Private students / 12 Kin	825.9133333	\$600,438.99		\$1,447,826.07		
Current students with \$50 increase 50% eligible for credit	4543					
ST		\$11,762,365.48		\$6,965,688.43		
Credit						
Current students with \$50 increase 50% eligible for credit	\$227,126.17					
Transfers	\$6,711,308.00					
Kind 50% eligible	\$949,800.33					
Credit ST	\$7,888,234.50					
Year 4 Savings	\$3,874,130.98					

[illegible]